

Finance Committee  
Town of Needham  
1471 Highland Avenue  
Needham, MA 02492

February 23, 2015

Kate Fitzpatrick  
Town Manager  
Needham Town Hall  
1471 Highland Avenue  
Needham, MA 02492

Re: Finance Committee Fiscal Year 2016 Draft Budget Recommendation

Dear Kate:

I am pleased to present the Finance Committee's voted draft budget recommendation for fiscal year 2016 totaling is \$135,799,837. The Finance Committee gives great consideration to your balanced budget proposal as well as the budget voted by the School Committee. This year, the Finance Committee is recommending some changes to those budget proposals primarily due to the recent information we received about the increase in the Town's health insurance costs for next year. The Finance Committee's draft budget recommendation includes changes to several departmental budgets, as well as to the Townwide expenses portion of the budget. It is important to recognize that the Townwide expenses, notably employee and retirement benefits, cover costs related to both School Department and Town employees.

The attached budget shows the specific Finance Committee recommendations for the FY 2016 Townwide expenses budget and the departmental operating budgets, including the recommended allocation for the School Department budget. I describe below the reasoning behind the Finance Committee's recommendations to the extent they differ from your proposed budget. The Finance Committee believes that the enclosed budget is reasonable, prudent, and fiscally sound, and will allow the Town and the School Department to maintain the outstanding level of services being currently provided, along with modest enhancements in some areas.

#### Townwide Expenses

After careful consideration of the various Townwide expenses, the Finance Committee recommends changes to two budget lines in the Townwide expenses portion of the FY 2016 recommended draft budget: the Employee Benefits and Employer Assessments, and the Reserve Fund.

**Employee Benefits and Employer Assessments:** The Committee recommends an increase of \$270,000 to the Employee Benefits and Employer Assessments line that is needed due to the updated estimate of FY 2016 health insurance premium increases.

The Town Manager's budget proposal assumes an increase of 6.2% in health insurance premiums. Shortly after that budget proposal was released, the Town's largest health insurance provider notified the Town that premiums would be increasing by 12.5% in FY 2016, a significant increase that will affect both the Town and its employees who are enrolled in the plan and share the cost of health insurance premiums. The cost to the Town is potentially \$480,000 more than accounted for in the Town Manager's proposed budget. After a detailed discussion, the Finance Committee decided that the Employee Benefits and Employer Assessments line in the budget must be augmented to account for some of that increase.

Each year, the Town projects revenue conservatively as it develops its operating budget. This usually results in revenue estimates that increase as more facts become known. At fall Special Town Meetings, additional revenue is often appropriated to the current operating budget. The issue was raised whether the Town Manager's proposed FY 2016 health insurance allocation could remain the same, and the budget could be increased in the fall when additional revenues would likely be available. However, the Finance Committee felt that it could not responsibly recommend a budget with a known deficit of this magnitude in one of the lines.

The Finance Committee adjusted certain assumptions in the Employee Benefits and Employer Assessments line in order to avoid overcompensating for the possible \$480,000 increase in health insurance premiums. The health insurance line in the Town Manager's budget proposal accounted for increases due to new positions being added in the FY 2016 budget, on both the Town side and in the School Department budget, as well as the migration of some existing employees who are not currently enrolled in the Town's health insurance into the Town's plan. The Finance Committee found that it is reasonable to assume that there would be some lag, so that new enrollees would not be covered at the very beginning of the fiscal year, allowing for a reduction of the expected deficit by \$100,000. The Finance Committee further found that the effect of the increase in health insurance premiums paid by employees would cause some employees to shift to lower cost plans, which would not only save money for the employee, but can be expected to also save the Town approximately \$110,000 in health insurance premiums.

With those two assumptions, the Finance Committee believed that an increase of \$270,000 above the Town Manager's budget proposal was needed to adequately fund the Employee Benefits and Employer Assessments line within the Townwide expenses portion of the FY 2016 budget. Because state law mandates a balanced budget, the \$270,000 increase had to be achieved through reductions in other lines. The funding for the increase came from the following sources: \$60,591 from decreases in anticipated fuel costs in the Police, Fire, Public Works and Public Facilities Departments, \$47,621 from the School Department budget, \$45,866 from the Minuteman School Assessment, \$15,922 from the Library, and \$100,000 from the Reserve Fund.

**Reserve Fund:** The Finance Committee voted to recommend a Reserve Fund of \$1,565,267. This amount includes two adjustments to the Town Manager's budget proposal which together provide a net increase of \$50,000 to the Reserve Fund. As discussed below in the section addressing changes to the School Department budget, the Finance Committee increased the Reserve Fund allocation by \$150,000 to correspond with the reduction to the School Department's requested operating capital for the 1:1 iPad initiative at the High Rock School.



Shifting this money to the Reserve Fund makes it available by request if there is an unexpected change in the School Department's costs for this technology initiative.

The Finance Committee also recommended shifting \$100,000 from the Reserve Fund to the Employee Benefits and Employer Assessments line to reduce the health insurance premium deficit. While there are concerns about lowering the Reserve Fund, particularly in light of the unusual strains on the FY 2015 Reserve Fund, the amount in the Finance Committee's draft budget recommendation, \$1,565,267, is higher than the Finance Committee's Reserve Fund budget request, and is fully expected to be sufficient to protect against budgetary overages. In addition, it is anticipated that in the fall when more information is available, the General Fund revenues are likely to be stronger than the current conservative estimates, providing additional funds to bolster the Reserve Fund.

### General Fund Operating Budget

#### Departments:

The Finance Committee's recommended draft budget is consistent with your balanced budget proposal with respect to the operating departments with the following exceptions:

Needham Public Schools  
Minuteman School Assessment  
Police Department  
Fire Department  
Department of Public Works  
Department of Public Facilities  
Library

### **Needham Public Schools Operating Budget**

The Finance Committee recommends a School Department budget of \$61,300,187 in FY 2016, which is \$197,621 lower than your recommendation. Our recommended budget funds 99.7% of the School Committee's voted budget of \$61,497,808, including the additional allocation of \$165,000 that the Town Manager's proposed budget provided to buffer the escalating costs of out-of-district special education tuitions. The Finance Committee did reduce the School Department's budget by \$47,621 to help manage the health insurance premium deficit described above. The Finance Committee felt it was reasonable that the School Department's budget, which accounts for approximately 45% of the Town's total operating budget and two-thirds of the Town's benefit-eligible employees, bear a portion of the health insurance premium deficit.

The Finance Committee's draft budget recommendation provides \$109,520 for School Department operating capital, which is \$150,000 lower than both the School Committee's voted budget, and the Town Manager's budget proposal. The School Department's voted budget included \$202,000 for the 1:1 technology initiative at the High Rock School. The School Department informed the Finance Committee that \$52,000 would be needed to continue the initiative with the same funding model as FY 2015. In FY 2015, the School Department's

program for the 1:1 technology initiative called for each 6<sup>th</sup> grader to have exclusive use of an iPad tablet for the year. In accordance with the plan, which was supported by the parents, 85% of the devices were provided by the students or their families, and the remaining 15% were purchased by the School Department for students to borrow. A survey of parents of next year's 6<sup>th</sup> graders has revealed that a number of those families also plan to provide their own devices. The School Department's FY 2016 technology request included \$52,000 to continue funding the program in the same way, plus a placeholder of \$150,000 in case the financing plan is changed so as to obligate the School Department to assume the entire burden of funding the devices. The Finance Committee's recommended draft budget includes funding for the 1:1 technology initiative at the same level as FY 2015; i.e., providing 15% of the needed devices for 6<sup>th</sup> graders. The Finance Committee recommends that \$150,000 be moved to the Reserve Fund, where those funds will be available for appropriation to the School Department should the School Department choose a plan for the 6<sup>th</sup> grade 1:1 technology program different from what it did in FY 2015. We look forward to having future discussions with the School Department regarding this.

We anticipate that our recommended School Department budget will continue to provide the necessary funding for top quality educational programs while also addressing increasing state and federal mandates, expanding technology programs, and rapidly increasing special education costs.

### **Town Departmental Operating Budgets**

In order to achieve a balanced budget and meet the needed allocation for health insurance premium increases, the Finance Committee is recommending the following adjustments to Town departmental operation budgets.

**Departments with Vehicle Fuel Costs:** The Finance Committee projects that fuel costs will be 18% lower than the assumptions in the Town Manager's proposed budget. The costs of gasoline and diesel fuels have decreased significantly in recent months, and are not projected to rebound to 2013 levels within the next two years. The Finance Committee is projecting that fuel costs will increase next year, but at a lower rate than previously expected. Therefore, an 18% reduction for fuel costs is being recommended for all departments with gasoline and diesel expenses.

**Police Department:** The Finance Committee reduced the recommendation for gasoline expenses for the Police Department by \$19,595.

**Fire Department:** The Finance Committee voted to decrease the expense budget for diesel fuel for the Fire Department by \$7,154.

**Department of Public Works:** The Finance Committee's draft budget provides a decrease of \$19,974 for diesel and \$8,428 for gasoline expenses in the Department of Public Works. This constitutes a total fuel expense reduction of \$28,402 for the department.



**Department of Public Facilities:** The Finance Committee recommends a decrease of \$5,540 for gasoline costs in the expense budget of the Department of Public Facilities.

**Library:** The Finance Committee voted to reduce the salary line of the Library budget by \$15,922. The Town Manager's proposed budget funded a request to increase circulation desk hours. This service is currently being funded from the Library's state aid account. While the Finance Committee supports transitioning ongoing positions into the operating budget when appropriate, it felt that FY 2016 was not the appropriate year for this change, in light of the pending health insurance premium increases. Since there are sufficient funds in the state aid account to fund this work for another year, this decrease to the FY 2016 operating budget will not affect Library services.

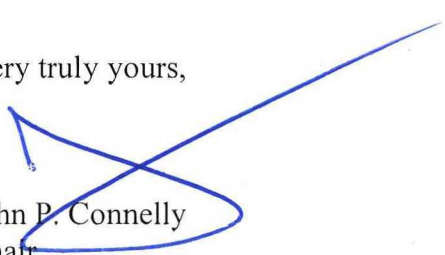
**Minuteman School Assessment:** The Finance Committee adjusted the Minuteman School assessment to match the preliminary assessment of \$654,134, resulting in a decrease of \$45,866.

Conclusion

The Finance Committee plans to vote a final budget to recommend to Town Meeting in early March. If you have any questions or would like to discuss any aspect of the Finance Committee's recommendations, please contact me.

The Finance Committee wishes to thank you, the Assistant Town Manager/Director of Finance, the Assistant Town Manager/Director of Operations, the Department Managers, the School Superintendent, the School Director of Financial Operations, the Board of Selectmen, the School Committee, and the School Central Administration for your invaluable assistance and cooperation throughout the process of developing our FY 2016 operating budget recommendations.

Very truly yours,



John P. Connelly  
Chair

Needham Finance Committee

Enclosure

cc: Board of Selectmen *(with enclosure)*  
Assistant Town Manager/Director of Finance *(with enclosure)*  
Assistant Town Manager/Director of Operations *(with enclosure)*  
Finance Committee *(with enclosure)*  
School Committee *(with enclosure)*  
School Superintendent *(with enclosure)*  
School Department Director of Financial Operations *(with enclosure)*